

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Jackson County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$7,958 from the prior year, resulting in excess fees of \$299 as of December 31, 2004. Revenues increased by \$41,805 from the prior year and expenditures increased by \$49,763.

Report Comments:

- The Sheriff Commingled Funds Between The 2004 Fee Account And The 2003 Tax Account
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Ensure Fiscal Court Sets Maximum Salaries For Deputies
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Jackson County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Commingled Funds Between The 2004 Fee Account And The 2003 Tax Account
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Ensure Fiscal Court Sets Maximum Salaries For Deputies
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Jackson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed
January 17, 2006

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Federal Grants		\$	5,640
State Grants			35,936
State - Kentucky Law Enforcement Foundation Program Fund			12,876
State Fees For Services:			
Finance and Administration Cabinet	\$	120	
Cabinet For Human Resources		<u>5,240</u>	5,360
Circuit Court Clerk:			
Sheriff Security Service			4,591
Fiscal Court (Note 4)			60,000
County Clerk - Delinquent Taxes			1,938
Commission On Taxes Collected			95,383
Fees Collected For Services:			
Auto Inspections	\$	2,770	
Accident and Police Reports		6,519	
Serving Papers		12,317	
Carrying Concealed Deadly Weapon Permits		4,020	
Waiting On Court		672	
10% Fee		14,440	
Miscellaneous		<u>4,666</u>	45,404
Transfer to Tax Account			<u>31,888</u>
Total Revenues		\$	<u>299,016</u>

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	73,119
Part-Time Salaries		1,215
Contracted Services-		
Advertising		150
Vehicle Maintenance and Repairs		10,084
Materials and Supplies-		
Office Materials and Supplies		2,739
Uniforms		3,600
Auto Expense-		
Gasoline		32,300
Transfers to Tax Account		31,526
Other Charges-		
Conventions and Travel		1,004
Dues		325
Postage		839
Insurance		881
Carrying Concealed Deadly Weapon Permits		1,290
Remittance On Behalf Of The Fiscal Court (Note 4)		35,626
Remittance On Behalf Of The Tax Account		30,000
Miscellaneous		3,117
		<u>\$ 227,815</u>
Capital Outlay-		
Office Equipment	\$	656
Vehicles		5,294
		<u>5,950</u>
Total Expenditures		<u>\$ 233,765</u>
Net Revenues		\$ 65,251
Less: Statutory Maximum		<u>64,952</u>
Excess Fees Due County For 2004		\$ 299
Payment Made to Fiscal Court - February 8, 2005		<u>\$ 269</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 30</u></u>

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of November 10, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Loan Activity Made On Behalf Of The Fiscal Court

Loan proceeds totaling \$60,000 are included on the financial statements as a contribution from fiscal court. On May 11, 2004, the Fiscal Court approved a \$10,000 loan to be used by the Sheriff for operating expenditures of his office. Again on June 8, 2004, the fiscal court approved a \$50,000 note for the Sheriff. \$10,000 of the proceeds of this note was used to pay off the principal of the May 11 note and \$49 paid the interest of that note, \$19,951 was deposited into the 2004 fee account and \$30,000 was deposited into the 2003 tax account. The fiscal court will account for the debt activity.

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Commingled Funds Between The 2004 Fee Account And The 2003 Tax Account

Money from 2003 tax collections was used to pay for 2004 operating expenditures. During calendar year 2004, the Sheriff transferred \$14,484 of 2003 tax funds to the 2004 payroll bank account and \$17,405 to the 2004 fee bank account. The Sheriff transferred \$31,526 of 2004 fees to the 2003 tax account. State law prohibits commingling of tax and fee funds. KRS 64.850 states an official should not "withdraw public funds for any purpose other than that for which they were received and deposited." The Sheriff was informed during the 2003 tax audit he could not mix tax money with fee money. It should be noted no funds were commingled using 2004 tax collections. We recommend that the Sheriff not commingle funds between the collection of taxes and his fees.

Sheriff's Response:

We have corrected this now.

The Sheriff Should Invest Money In Interest Bearing Accounts

The Sheriff deposited fee account funds into a non-interest bearing account. KRS 66.480 states the county official at the direction of the fiscal court shall invest and reinvest money subject to their control and jurisdiction. Since the Sheriff had excess fees for calendar year 2004, interest earned on the fee account would have increased the amount of excess fees due the county. We recommend the Sheriff comply with KRS 66.480 by depositing fee account funds into interest bearing accounts in the future.

Sheriff's Response:

We have corrected this now.

The Sheriff Should Ensure Fiscal Court Sets Maximum Salaries For Deputies

The fiscal court did not set the maximum salaries for deputies in the Sheriff's office for calendar year 2004. KRS 64.530 requires the fiscal court to fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants. We recommend the Sheriff ensure fiscal court set the maximum salaries for all personnel paid from the Sheriff's fee account.

Sheriff's Response:

Will do in February Fiscal Court meeting.

JACKSON COUNTY
TIM FEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposit to daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response:

Will try.

PRIOR YEAR:

- The Sheriff Should Not Commingle Funds Between His Accounts
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

These comments have not been corrected and are repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jackson County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated January 17, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Commingled Funds Between The 2004 Fee Account And The 2003 Tax Account
- The Sheriff Should Invest Money In Interest Bearing Accounts
- The Sheriff Should Ensure Fiscal Court Sets Maximum Salaries For Deputies

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 17, 2006

